

RURAL WATER DISTRICT NO. 3
ACCOUNTANT'S AUDIT REPORT

For the Twelve Months Ended
November 30, 2015

Prepared By

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Certified Public Accountant
Winfield, Kansas

RURAL WATER DISTRICT NO. 3
Annual Financial Report
Year Ended November 30, 2015

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RURAL WATER DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended November 30, 2015 & 2014

Operations for the year ended November 30, 2015 Increased due to rate Increase. Total sales were 338,763 compared to 297,864 in the previous year. Interest income continues to decline because of historically low interest rates.

Total fixed assets increased by \$245,510. The total increase was accomplished by two factors. Property, plant, equipment acquisitions totaled \$321,307. Depreciation expenses reduced total property by \$75,797.

Other current assets decreased by \$183,092. The accounts that effected these changes were accounts receivable, prepaid insurance, and inventory. Changes in cash and certificate balances accounted for the other changes in current assets.

There was a net decrease in cash and cash equivalents of \$170,594. The statement of cash flows should be reviewed to determine the details of this increase.

In summary, the District showed a net operating gain of \$29,641. Total operating expenses were up 13% over 2014. As for non-operating revenues, there was little variation from 2014, the only difference coming from the sale of a vehicle in 2014 for \$4500.

RWD #3 showed an overall income of \$43,600 compared to the \$42,124 overall income for 2014. The District showed a small increase in net income which is partially attributable to the rate increase in effect for 2015. The \$40,899 increase in total revenues, the \$4181 decrease in other income, and increase in operating expenses of \$35,242 is what contributed to the \$1476 increase in net income.

Deferred Inflows/Outflows have been presented in accordance with KPERS pension liabilities. Net effect on Net Position is a reduction of \$12,395.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
RWD #3
Cowley County, Kansas

I have audited the accompanying financial statements of Rural Water District No. 3 Cowley County, Kansas as of and for the years ended November 30, 2015 and 2014 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *the Kansas Municipal Audit Guide*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the expressing of an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects the net position of Rural Water District No. 3 as of November 30, 2015 and November 30, 2014, and the respective net changes in net position and, where applicable, cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.


Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the

information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

I noted certain matters of importance that I have reported to the management of Rural Water District No. 3 in a separate letter.


Certified Public Accountant

Winfield, KS
February 9, 2016

RURAL WATER DISTRICT NO. 3
STATEMENT OF NET POSITION
November 2015 and 2014

Assets	2015 November 30	2014 November 30
Current Assets		
Cash in Bank - General	\$ 54,967	\$ 40,945
Cash in Bank - Certificate of Deposit/Savings	460,588	645,204
Accounts Receivable - Customers (Note 1)	22,365	27,382
Prepaid Expenses	6,111	7,640
Inventory	29,146	35,098
	<hr/>	<hr/>
Total Current Assets	\$ 573,177	\$ 756,269
 PROPERTY, PLANT AND EQUIPMENT	 853,097	 607,587
DEFERRED INFLOWS	9,980	
	<hr/>	<hr/>
Total Assets and Deferred Inflows	\$ 1,436,254	\$ 1,363,856
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 LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	\$ 12,685	\$ 4,667
Accrued Payroll and Payroll Taxes	2,514	1,864
Net Pension Liability	47,879	32,192
Other Current Liabilities	912	735
	<hr/>	<hr/>
Total Current Liabilities	\$ 63,990	\$ 39,458
	<hr/>	<hr/>
DEFERRED OUTFLOWS	\$ 22,375	\$ 22,375
	<hr/>	<hr/>
NET POSITION		
Restricted Net Assets	\$ -	\$ -
Investment in Capital Assets	853,097	607,587
Unrestricted Net Assets	496,792	694,436
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Total Net Position	\$ 1,349,889	\$ 1,302,023
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See accompanying notes and accountant's report.

RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES AND EXPENSES
November 2015 and 2014

	2015 November 30	2014 November 30
WATER SALES	\$ 338,763	\$ 297,864
COSTS AND OPERATING EXPENSES		
Salaries - Field	\$ 36,796	\$ 30,276
Salaries - Office	38,735	34,359
Payroll Taxes	5,738	5,119
Retirement Contribution	8,609	6,170
Medical Expenses	974	4,738
Electricity	32,025	31,368
Contract Labor	14,521	17,401
Natural Gas	1,197	1,210
Telephone	4,033	3,657
Repairs-Machinery	898	1,246
Repairs-Water System	28,000	14,923
Insurance	14,275	14,078
Accounting and auditing	3,285	4,694
Chemicals	3,492	4,381
Field Expenses	3,750	1,583
Mileage	1,603	1,776
Vehicle Expense	5,754	8,445
Water Protection Fees	3,957	3,446
Water Testing	1,811	600
Office Expense	9,490	9,976
Other Service	3,176	2,562
Depreciation Expense	75,797	69,520
Memberships and Dues	1,308	828
Other Expenses	9,898	1,524
Total Operating Expense	<u>\$ 309,122</u>	<u>\$ 273,880</u>
Net Income (Loss) from Operations	<u>\$ 29,641</u>	<u>\$ 23,984</u>
NONOPERATING REVENUES:		
Penalties	\$ 7,730	\$ 6,629
Interest Income	3,127	2,782
Other Income	3,102	4,229
Gain On Sale of Assets		4,500
	<u>\$ 13,959</u>	<u>\$ 18,140</u>
Net Income (Loss)	<u><u>\$ 43,600</u></u>	<u><u>\$ 42,124</u></u>

See accompanying notes and accountant's report.

RURAL WATER DISTRICT NO. 3
STATEMENT OF CHANGES IN NET POSITION
For the Year Ended November 30, 2015 and 2014

	<u>Restricted Net Assets</u>	<u>Invested In Capital Assets, Net of Debt</u>	<u>Unrestricted Net Assets</u>	<u>Net Assets</u>
BALANCE, November 30, 2013	\$ -	\$ 605,888	\$ 699,098	\$ 1,304,986
Other Changes			\$ (502)	\$ (502)
Benefit Units	-	-	\$ 9,982	\$ 9,982
Net Changes		1,699.00	\$ (1,699)	
Net Income			42,124	42,124
Pension Liabilities			(54,567)	(54,567)
BALANCE, November 30, 2014	<u>\$ -</u>	<u>\$ 607,587</u>	<u>\$ 694,436</u>	<u>\$ 1,302,023</u>
Other Changes			665	665
Net Benefit Units	-		3,600	3,600
Net Changes		245,510	(245,510)	
Net Income			43,601	43,601
BALANCE November 30, 2015	<u>\$ -</u>	<u>\$ 853,097</u>	<u>\$ 496,792</u>	<u>\$ 1,349,889</u>

See Accompanying notes and Accountant's report

RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
For the Years Ended November 30, 2015 and 2014

	2015 November 30	2014 November 30
Cash Flows from Operating Activities		
Operating (Loss) Income	\$ 43,600	\$ 42,124
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense	75,797	69,520
Changes in:		
Accounts Receivable	5,017	(8,070)
Prepaid Expenses	1,529	(732)
Inventory	5,952	(595)
Accounts Payable and Accrued Liabilities	24,532	(546)
Deferred Inflows		
Deferred Outflows	(9,980)	
	<u>\$ 146,447</u>	<u>\$ 101,701</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash from sale of benefits units and line extensions	\$ 3,600	\$ 9,982
Prior Period Adjustment	<u>\$ 666</u>	
Net cash provided (used) by capital and related financing activities	<u>\$ 4,266</u>	<u>\$ 9,982</u>
INVESTING ACTIVITIES:		
Property & Equipment Purchases	<u>\$ 321,307</u>	<u>\$ 71,721</u>
Net cash provided (used) by investing activities	<u>\$ (321,307)</u>	<u>\$ 71,721</u>
NET CHANGE IN CASH AND EQUIVALENTS	<u>\$ (170,594)</u>	<u>\$ 39,962</u>
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>686,149</u>	<u>646,187</u>
CASH AND EQUIVALENTS, END OF THE YEAR	<u><u>\$ 515,555</u></u>	<u><u>\$ 686,149</u></u>
Interest paid in cash	<u>\$ -</u>	<u>\$ -</u>
Taxes paid in cash	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes and accountant's report.

RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2015 AND 2014

1. Summary of Significant Accounting Policies

Organization

The Rural Water District (District) was established as a tax exempt organization to acquire water and water rights and to build and acquire pipe lines for the purpose of furnishing water to owners and occupants of land located within the district.

Cash Equivalents

For purposes of the statement of cash flows the District considers all highly liquid investments having original maturities of six months or less to be cash equivalents.

Accounts Receivable

The District requires its members to read their own meters on the first day of each month or the earliest date thereafter. Payments for water service are due the 10th day of the month or will be subject to a late charge of 10 %. Failure to pay for water service by the first day of the month following the month in which the water service was provided shall result in discontinuance of service.

Inventories

Inventories consist primarily of meters, line maintenance material and chemicals. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property, Plant and Equipment

Property, Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$1,200 and are included in members' equity.

Income Taxes

The District is a quasi-governmental unit, not subject to federal and state income taxes.

Bank Deposit

At November 30, 2015 and 2014, the District's deposits (bank account and certificate of deposit) were covered by federal depository insurance and by collateral held by the District's agent in the District's name.

Uncompensated Absences

Uncompensated absences cannot be reasonably estimated.

RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
November 30, 2015 and 2014

2. Property, Plant and Equipment

	<u>2015</u>	<u>2014</u>
Land	\$ 2,000	\$ 2,000
Machinery and equipment	220,248	219,807
Plant	253,602	253,602
Water utility system	1,872,600	1,678,671
Office building	49,610	49,610
Office equipment	20,068	19,289
Pump house	149,465	149,465
Vehicle	32,633	32,633
Water tower	90,444	90,444
Easement	45,808	45,808
Construction in Progress	126,158	
	<u>\$ 2,862,636</u>	<u>\$ 2,541,329</u>
Less accumulated depreciation	<u>(2,009,539)</u>	<u>(1,933,742)</u>
	<u>\$ 853,097</u>	<u>\$ 607,587</u>

3. Concentration of Credit Risk

The District is engaged in the sale of water to customers located in Cowley County, Kansas. The District grants credit to those customers and requires no collateral.

4. Defined Benefit Pension Plan

Plan description. The District participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple employer defined benefit pension plan provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provision. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding policy. K.S.A. 74-4919 and K.S.A. 74-49210 establish the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution of 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provision of section 414(h) of the Internal Revenue Code. Effective January 1, 2015, Tier 1 members contribute 6%. The State of Kansas is required to contribute to the statutory employer's share.

Net Pension Liability. The total pension liability for KPERS was determined by an actuarial valuation as of December 31, 2013, which was rolled over to June 30, 2014. As of June 30, 2014, the net pension liability for KPERS was \$8,291,794,910. KPERS has determined the District's proportionate share of the net pension liability is \$47,879 as of June 30, 2014. The complete actuarial valuation report including all actuarial assumptions as methods is publically available on the website at www.kpers.org or can be obtained as described in the first paragraph above.

RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
November 30, 2015 and 2014

5. Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended November 30, 2015 and 2014.

6. Insurance

RWD #3 has insured itself against potential risks by purchasing insurance policies to cover potential losses. RWD #3 has purchased eight separate coverages which include property liability, employee bonds, machine and equipment, automobile, workers compensation, umbrella liability, and linebacker public officials and employment practices coverage. The total annual premium for the policy is \$12,746. The policy includes coverage from June 12, 2015, through June 11, 2016.

7. Phase II Development

RWD #3 has a plan for system improvements which are estimated to cost \$1,764,400. The District will use some of its cash and a loan to finance the project. This is a long range project and could take several years to complete. The District has executed a loan agreement dated July 21, 2014 with the Kansas Department of Health and Environment for \$1,995,944. The loan proceeds will cover the cost of the project as well as applicable loan fees. The loan is payable over 20 years at 2.6 % interest with annual loan payments of \$64,308. As of the balance sheet date, none of the loan proceeds had been received.

8. Subsequent Events

Subsequent event have been evaluated through February 9, 2016.

9. Affordable care act

The District has changed its health insurance and medical reimbursement programs to comply with the Affordable Care Act. The District no longer offers health insurance or a medical reimbursement plan for its employees. It does offer a taxable insurance supplement which is not required to be used for health insurance.